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Global ex-US edition

UBS-AM: SFDR concepts

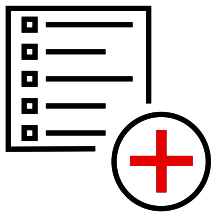
UBS Asset Management's implementation of SFDR Article 2(17)

As applicable to Active Equities, Fixed Income, Multi-Assets and CIG strategies

UBS Asset Management

July 2026

Executive summary



Introduction to Sustainable Investment defined by SFDR Article 2(17)

- EU Commission requirement
- UBS-AM's approach

UBS-AM's qualification requirements

- Article 2(17) SFDR overall
- Deep-dive on the following:
  - Good governance test
  - Do no significant harm[1] test
  - Positive contribution test

Results of UBS-AM's approach

- Illustrative calculation example using single companies

Note: UBS-AM = UBS Asset Management, SFDR = (European Union) Sustainable Finance Disclosure Regulation, Do no significant harm is further used in the deck as abbreviation DNSH

‘Sustainable Investment’ as defined by Article 2(17) of SFDR

EU Commission Requirement

Sustainable Investment avoids	Lacking good governance		✘	• If the investee companies do not follow good governance practices – This is with respect to sound management structures, employee relations, remuneration of staff and tax compliance
	Significant harm		✘	• If investments do significant harm to any of the objectives
Sustainable Investment includes	Environmental		✓	• An investment in an economic activity that contributes to an environmental objective – As measured, for example, by key resource efficiency indicators or its impact on biodiversity
	Social		✓	• **Or** an investment in an economic activity that contributes to a social objective – Such as tackling inequality, fostering social cohesion, promoting human capital or contributing to economically or socially disadvantaged communities

Source: EU Commission, 2021. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&rid=1

UBS-AM's approach to sustainable investment as per SFDR Article 2(17)

Test-based single universe approach[1]: Negative test and positive test

Negative tests

- Good Governance Test
- Do No Significant Harm Test

- Any qualifying issuer needs to pass both tests
- Issuers that are assessed as having good governance and do not do significant harm enter positive qualifying tests

Positive tests

- E/S Positive Contributions Test
- Environmental Test
- Social Test

- Issuers not screened out before need to pass at least one of the following tests:
  - Activity-linked contribution
  - Environmental benefits
  - Social benefits
- If an issuer does not fail any of the negative tests and passes at least one of the positive tests, the entity and its securities is considered "sustainable" under SFDR Art. 2 (17)

1 The single universe approach is objective, an issuer is assessed to be a sustainable investment or not independent of the product in which it's held

UBS-AM's approach to sustainable investment
Overall qualification requirements:

Specific indicators are used in each test to determine if investment qualifies as sustainable

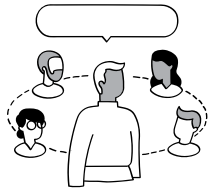
	Corporate investments	**Sovereign investments**
Negative tests (Must pass both tests)		
Good governance test	• Governance qualification (internal and external data)	• N/A
Do no significant harm test	• UBS AM Sustainability Exclusion policy • UN Global Compact (fails if there is no credible corrective action) and the OECD principles • Principal Adverse Sustainability Impacts thresholds (A breach if there is no credible corrective action)	• Principal Adverse Sustainability Impacts thresholds (A breach if there is no credible corrective action)[1]
Positive contribution *(Must pass at least one **sequentially**)*		
E / S Positive contribution test Threshold of ≥15% of revenues) [2]	• ≥15% of revenues aligned to Sustainable Development Goals (SDG) as per third party provider[3] OR • Is included in UBS proprietary impact universe[4]	• Not applicable
Environmental test	• EU environmental taxonomy alignment • Decarbonization progress • Environmental engagement target • Labelled bonds: Green / Sustainability-linked bonds	• Environmental score • Labelled bonds: Green / Sustainability-linked bonds
Social test[5]	• Social minimum standards apply in addition to the below criteria • Human Capital standards • Social engagement target • Labelled bonds: Social / Sustainability-linked / Multilateral Development Bank (MDB) bonds	• Social score • Labelled bonds: Social / Sustainability-linked / Multilateral Development Bank (MDB) bonds

1 Quantitative tests shown may be complemented by a qualitative, bottom-up assessment
2 UBS has established a threshold of at least 15% of revenues (which can also apply to Capex) to ensure that large companies with diverse streams are not disadvantaged if they contribute to sustainable activities. UBS believes this threshold also indicates a significant and material part of a company's business strategy.
3 MSCI is currently the data provider but this is subject to change
4 Universe is composed by SDI AOP as the current data provider in addition to UBS fundamental analysis
5 UBS continues to monitor the EU social taxonomy alignment guidance from the Regulator

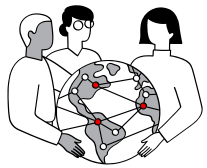
Deep-dive: Good governance test at UBS-AM

For Art. 8 & 9 products, investee companies must follow good governance practices, with respect to…

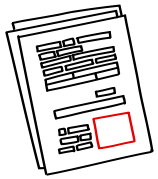
Sound management structures



Employee relations



Remuneration of staff



Tax compliance

Good governance is assessed as below for all corporate issuers, if an issuer fails any of the tests, this issuer fails good governance. Note that if data are unavailable for all tests, then the issuer passes good governance (no proof of guilt).

		Test will fail if:
Test 1	Sound management structures	MSCI Corporate Governance Score <=2 [1]
Test 2	Employee relations	UNGC fail[2]
Test 3	Remuneration	UNGC fail[2]
Test 4	Tax compliance	UNGC fail[2]

Good governance is not required to be assessed for non-corporate issuers / instruments e.g. sovereigns, supranationals, cash, securitized instruments. For 3rd party funds and other pooled instruments, the good governance test is defined by the respective asset managers.

1 Currently MSCI is used as a data source for this test, but it could change depending on methodology changes
2 Tests on employee relations, remuneration of staff and tax compliance are based on alignment with the United Nations Global Compact (UNGC) principles

Deep-dive: DNSH test at UBS-AM

Of the Principal Adverse Impact (PAI) indicators defined by the regulator, UBS-AM currently considers the following in the implementation of the DNSH test

PASI category	Indicator	UBS Inclusion[1]	Format	Threshold
Mandatory Corporate Env. PAI Indicators	1.1. GHG Emissions	7	CO_2	
	1.2. Carbon footprint	7	CO_2 / $ invested	
	1.3. GHG intensity of investee companies	3	CO_2 / $ revenues	Bottom 10th pctl in high impact climate sector (TCFD) excluding companies with SBTi approved targets
	1.4. Exposure to companies active in the fossil fuel sector	3	Yes / Not disclosed	Companies with FF revenues ≥20%[2] excluding companies with SBTi approved targets
	1.5. Share of non-renewable energy consumption and production	7	0-100%	
	1.6. Energy consumption intensity per high impact climate sector	7	Missing	
	1.7. Activities negatively affecting biodiversity – sensitive areas	3	Yes / Not disclosed	Has operations in biodiversity sensitive areas and does not have biodiversity protection policy
	1.8. Emissions to water	7	Tons / $ invested	
	1.9. Hazardous waste ratio	7	Tons / $ invested	
Mandatory Corporate Social PAI indicators	1.10. Violations of UN Global Compact principles and Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	3	Fail / other flags	<> "Fail"
	1.11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD guidelines for Multinational Enterprises	7	Yes / No evidence	
	1.12. Unadjusted gender pay gap	7	-100 to +100	
	1.13. Board gender diversity	3	0-100%	Bottom 10th pctl in EM / DM
	1.14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	3	Yes / No evidence	<> "Yes"
Mandatory Sovereigns PAI Indicators	1.15. GHG Intensity	3	GHG / GDP / Capita	Bottom 10th pctl
	1.16. Investee countries subject to social violations	3	Yes / No	<> "Yes"

Source: UBS Asset Management, August 2023

1 Tests not considered, indicated by 7,are due to a lack of data availability

2 A threshold of ≥5% may apply to specific portfolios for certain activities like thermal coal mining and oil sands as per the UBS AM Sustainability Exclusion policy

Illustrative calculation example using single companies

Security	**Company A** (Wind Power Industrial)	**Company B** (Apparel Producer)	**Company C** (Utility)	**Company D** (Food Producer)	**Company E** (Building Material Producer)	**Company F** (Mining Company)	**Portfolio Total**
Security Weight *(market value)*	**20%**	**20%**	**15%**	**15%**	**15%**	**15%**	**100%**
Good Governance test	✓ Pass	✓ Pass	✓ Pass	✓ Pass	✓ Pass	× Fail	85% pass
Do No Significant Harm test	✓ Pass	✓ Pass	✓ Pass	× Fail	× Fail	× Fail	55% pass
Assessment of 2 negative tests *(must pass both tests)*	3	3	3	7	7	7	**55% pass**
E / S Positive Contribution test Pass: SDG-aligned revenues ≥15%	✓ Pass	× Fail	× Fail	✓ Pass	× Fail	× Fail	35% pass
Environmental test	✓ Pass	✓ Pass	× Fail	✓ Pass	✓ Pass	No data	70% pass
Social test	✓ Pass	× Fail	× Fail	✓ Pass	× Fail	× Fail	35% pass
Assessment of the 3 positive tests *(at least one must pass)*	3	3	7	3	3	7	**70% pass**
Final result: Art. 2 (17) % Sustainable Investment *(Both levels of testing must be passed to qualify)*	Article 2.17 Sustainable Investment	Article 2.17 Sustainable Investment	NO Article 2.17 Sustainable Investment	NO Article 2.17 Sustainable Investment	NO Article 2.17 Sustainable Investment	NO Article 2.17 Sustainable Investment	**40% pass**

Source: UBS Asset Management, July 2026
Note: For illustrative purposes only

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